

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FIRST SET OF INFORMATION REQUESTS FROM THE D.T.E.
D.T.E. 04-57

Date: August 20, 2004

Witness Responsible: Joseph A. Ferro

DTE 1-21: Please refer to Exh. BSG-1, Att. A. Provide copies of the relevant pages of Bay State's Annual Return cited in the calculation of the Company's 2003 ROE.

RESPONSE: Please see Attachment DTE 1-21 (A), (B) and (C) which are copies of Bay State's 2003 Annual Return pages 8, 9 and 10, respectively.

Annual report of.....BAY STATE GAS COMPANY.....Year ended December 31,2003

COMPARATIVE BALANCE SHEET Assets and Other Debits				
Line No.	Title of Account (a)	Balance Beginning of Year (b)	Balance End of Year (c)	Increase or (Decrease) (d)
1	UTILITY PLANT			
2	Utility Plant (101-107) P.13	1,162,483,806	1,190,252,064	27,768,258
3	OTHER PROPERTY AND INVESTMENTS			
4	Nonutility Property (121) P.19.....	75,096	75,096	0
5	Investment in Associated Companies (123) P.20.....	110,850,333	114,972,087	4,121,754
6	Other Investments (124) P.20.....	32,330	32,000	(330)
7	Special Funds (125,126,127,128) P.21.....			
8	Total Other Property and Investments.....	110,957,759	115,079,183	4,121,424
9	CURRENT AND ACCRUED ASSETS			
10	Cash (131).....	433,948	1,516,754	1,082,806
11	Special Deposits (132,133,134) P.21.....			
12	Working Funds (135).....	13,730	5,730	(8,000)
13	Temporary Cash Investments (136) P.20.....			
14	Notes and Accounts Receivable (141,142,143) P.22.....	49,905,411	58,599,853	8,694,442
15	Receivables from Assoc. Companies (145,146) P.23.....	1,140,028	1,091,765	(48,263)
16	Materials and Supplies (151-159,163) P.24.....	23,114,314	36,146,787	13,032,473
17	Prepayments (165).....	1,772,512	3,375,037	1,602,525
18	Interest and Dividends Receivable (171).....	20,606	42,057	21,451
19	Rents Receivable (172).....			
20	Accrued Utility Revenues (173).....	47,998,972	34,340,353	(13,658,619)
21	Def. Fuel Costs (175).....	19,584,310	43,329,675	23,745,365
22	Total Current and Accrued Assets.....	143,983,831	178,448,011	34,464,180
23	DEFERRED DEBITS			
24	Unamortized Debt Discount and Expense (181) P.26.....	8,222,665	7,630,615	(592,050)
25	Extraordinary Property Losses (182) P.27.....			
26	Preliminary Survey and Investigation Charges (183).....	0	0	0
27	Clearing Accounts (184).....	0	1,753	1,753
28	Temporary Facilities (185).....	0	0	0
29	Miscellaneous Deferred Debits (186)...P.27.....	23,517,560	31,924,471	8,406,911
30	Total Deferred Debits.....	31,740,225	39,556,839	7,816,614
31	CAPITAL STOCK DISCOUNT AND EXPENSE			
32	Discount on Capital Stock (191) P.28.....			
33	Capital Stock Expense (192) P.28.....			0
34	Total Capital Stock Discount and Expense.....			0
35	REACQUIRED SECURITIES			
36	Reacquired Capital Stock (196).....			
37	Reacquired Bonds (197).....			
38	Total Reacquired Securities.....			
39	Total Assets and Other Debits.....	1,449,165,621	1,523,336,097	74,170,476

Annual report of.....BAY STATE GAS COMPANY.....Year ended December 31,2003

COMPARATIVE BALANCE SHEET Liabilities and Other Credits				
Line No.	Title of Account (a)	Balance Beginning of Year (b)	Balance End of Year (c)	Increase or (Decrease) (d)
1	PROPRIETARY CAPITAL			
2	CAPITAL STOCK			
3	Common Stock Issued (201) P.29.....	100	100	0
4	Preferred Stock Issued (204) P.29.....			
5	Capital Stock Subscribed (202,205).....			
6	Premium on Capital Stock (207) P.29.....	525,771,866	523,771,866	(2,000,000)
7	Total.....	525,771,966	523,771,966	(2,000,000)
8	SURPLUS			
9	Other Paid-In Capital (208-211) P. 30.....	392,833	870,173	477,340
10	Earned Surplus (215,216) P. 12.....	(5,513,104)	4,573,035	10,086,139
11	Surplus Invested In Plant (217).....			
12	Total.....	(5,120,271)	5,443,208	10,563,479
13	Total Proprietary Capital.....	520,651,695	529,215,174	8,563,479
14	LONG TERM DEBT			
15	Bonds (221) P.31.....			
16	Capital Lease Obligations			
17	Other Long-Term Debt (224) P.31.....	95,500,000	118,500,000	23,000,000
18	Total Long-Term Debt.....	95,500,000	118,500,000	23,000,000
19	CURRENT AND ACCRUED LIABILITIES			
20	Notes Payable (231) P.32.....	0	0	0
21	Accounts Payable (232).....	34,671,075	39,859,899	5,188,824
22	Payables to Associated Companies (233,234) P.32.....	224,050,112	198,272,070	(25,778,042)
23	Customer Deposits (235).....	2,980,692	3,193,497	212,805
24	Taxes Accrued (236).....	4,586,883	9,898,598	5,311,715
25	Interest Accrued (237).....	2,629,787	2,234,646	(395,141)
26	Dividends Declared (238).....			
27	Fuel Purchase Commitments.....	0	0	0
28	Capital Leases (240).....			
29	Tax Collections Payable (241).....	274,695	399,035	124,340
30	Misc. Current and Accrued Liabilities (242) P.33.....	4,681,962	3,920,913	(761,049)
31	Total Current and Accrued Liabilities.....	273,875,206	257,778,658	(16,096,548)
32	DEFERRED CREDITS			
33	Unamortized Premium on Debt (251) P.26.....			
34	Customer Advances for Construction (252)	402,412	401,895	(517)
35	Other Deferred Credits (253) P.33.....	8,390,683	10,212,439	1,821,756
36	Total Deferred Credits.....	8,793,095	10,614,334	1,821,239
37	RESERVES			
38	Reserves for Depreciation (254-256) P.13.....	232,134,239	256,651,826	24,517,587
39	Reserves for Amortization (257-259) P.13.....	58,803,723	75,323,063	16,519,340
40	Reserve for Uncollectible Accounts (260).....	3,408,590	6,411,000	3,002,410
41	Operating Reserves (261-265) P.35.....	10,883,951	11,303,230	419,279
42	Reserve for Depreciation and Amortization of Nonutility Property (266).....	1,079	1,079	0
43	Reserves for Deferred Federal Income Taxes (267,268) P.36.....	245,114,043	257,537,733	12,423,690
44	Total Reserves.....	550,345,625	607,227,931	56,882,306
45	CONTRIBUTIONS IN AID OF CONSTRUCTION			
46	Contributions in Aid of Construction (271) P. 36.....	0	0	0
47	Total Liabilities and Other Credits.....	1,449,165,621	1,523,336,097	74,170,476

Annual report of.....BAY STATE GAS COMPANY.....Year ended December 31, 2003

STATEMENT OF INCOME FOR THE YEAR			
Line No.	Account (a)	Current Year (b)	Increase or (Decrease) from Preceding Year (c)
1	OPERATING INCOME		
2	Operating Revenues (400) P.37,43.....	\$ 455,064,378	\$ 93,090,966
3	Operating Expenses:		
4	Operation Expense (401) P.42,47.....	356,773,945	78,249,259
5	Maintenance Expense (402) P.42,47.....	8,597,694	1,201,789
6	Depreciation Expense (403) P.34.....	23,064,765	702,268
7	Amortization of Utility Plant (404 and 405).....	15,129,271	(563,208)
8	Amortization of Property Losses (407.1).....		0
9	Amortization of Investment Tax Credit (407.2).....	(373,740)	0
10	Taxes Other Than Income Taxes (408) P.49.....	8,140,478	(1,536,969)
11	Income Taxes (409) P.49.....	(1,113,841)	3,510,959
12	Provision for Deferred Fed. Inc. Taxes (410) P.36.....	14,344,786	3,881,839
13	Fed. Inc. Taxes Def. in Prior Yrs.-Cr. (411) P. 36.....	(59,852)	138,857
14	Total Operating Expenses.....	424,503,506	85,584,794
15	Net Operating Revenues.....	30,560,872	7,506,172
16	Income from Utility Plant Leased to Others (412)-Net.....	(504)	(244)
17	Other Utility Operating Income (414) P.50.....		
18	Total Utility Operating Income.....	30,560,368	7,505,928
19	OTHER INCOME		
20	Income (Loss) from Mdse. Job & Contract Work (415) P. 51-After Taxes.....	357,671	112,698
21	Income from Nonutility Operations (417)-After Taxes.....	760,438	(353,340)
22	Nonoperating Rental Income (418).....	0	0
23	Interest and Dividend Income (419)-After Taxes.....	587,329	494,631
24	Misc Nonoperating Income (421)-After Taxes and Earnings of Subsidiaries.....	5,932,550	3,821,610
25	Total Other Income.....	7,637,988	4,075,599
26	Total Income.....	38,198,356	11,581,527
27	MISCELLANEOUS INCOME DEDUCTIONS		
28	Miscellaneous Amortization (425).....		
29	Other Income Deductions (426).....	(1,106,578)	(4,180,373)
30	Total Income Deductions.....	(1,106,578)	(4,180,373)
31	Income Before Interest Charges.....	39,304,934	15,761,900
32	INTEREST CHARGES		
33	Interest on Long-Term Debt (427) P.31.....	5,844,467	(3,701,376)
34	Amortization of Debt Disc. & Expense (428) P.26.....	537,936	20,701
35	Amortization of Prem. on Debt-Credit (429) P.26.....		
36	Int. on Debt to Associated Companies (430) P.31,32.....	5,560,901	1,936,977
37	Other Interest Expense (431).....	(1,430,696)	(2,187,580)
38	Interest Charged (Credited) to Construction-Credit (432).....	0	0
39	Total Interest Charges.....	10,512,608	(3,931,278)
40	Net Income.....	\$ 28,792,326	\$ 19,693,178
41	EARNED SURPLUS		
42	Unappropriated Earned Surplus (at beginning of period) (216).....	\$ (5,120,271)	\$ (15,729,017)
43	Balance Transferred from Income (433).....	28,792,327	19,693,179
44	Miscellaneous Credits to Surplus (434).....Prior Period Adjustment	0	(183,510)
	Miscellaneous Credits to Surplus(434).....OCI Deficits	3,009,152	19,020,827
45	Miscellaneous Credits to Surplus (434).....Redemption of Preferred Stock	0	0
46	Miscellaneous Debits to Surplus (435).....Rounding	0	0
47			
48	Net Additions of Earned Surplus.....	31,801,479	38,530,496
49	Appropriations of Surplus for Common Stock Rights(436).....	0	0
50	Dividends Declared-Common Stock (438).....	21,238,000	12,238,000
51	Unappropriated Earned Surplus (at end of period) (216).....	\$ 5,443,208	\$ 10,563,479

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

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D.T.E. 04-57

Date: August 20, 2004

Witness Responsible: Joseph A. Ferro

DTE 1-22: Please refer to Exh. BSG-1, at 7-9; and Sch. BSG-1.

- (a) What range of earnings does Bay State consider to be "a reasonable level of earnings based on the Department's most recent allowed returns?"
- (b) State the Company's understanding of the terms "allowed ROE" versus "guaranteed ROE."
- (c) State the Company's understanding of the phrase "the Company's earnings, independent of recovering a proposed exogenous cost, are reasonable". How has Bay State satisfied this condition for the recovery of exogenous costs?
- (d) How will the non-recovery of the proposed exogenous costs significantly affected the Company's operations.

RESPONSE:

- (a) A reasonable level of earnings for the purpose of an exogenous cost recovery request should be based on earnings at or below the Department's most recent allowed returns (such as those granted in D.T.E. 03-40 and D.T.E. 02-24/25), after adjusting revenues to account for colder- or warmer-than-normal weather.
- (b) The Company has no "guaranteed" return on equity. Rather, it is granted an *opportunity* to earn the allowed return established through the ratemaking process.
- (c) Bay State's return is below the allowed ROE granted by the Department in the most recent rate proceedings brought by Boston Gas and Fitchburg Gas and Electric Light Company. Bay State does not need to impute the recovery of the proposed exogenous cost to establish that its earned ROE is reasonable; however, Bay State has included the imputed recovery in its calculation to demonstrate to the Department that even were recovery of this exogenous cost permitted, Bay State would still be in an earnings range below a reasonable ROE.
- (d) The Department has stated that the impact of any individual exogenous cost must exceed \$500,000 in a particular year for Bay State to seek recovery of that cost. The reason the Department set this threshold was so that "regulatory battles over minimal dollars" would be avoided. D.T.E. 98-31 at 18. Once the individual exogenous cost exceeds this threshold, it is of a magnitude that

qualifies for recovery. That is because as an individual exogenous cost, it is significant. Note that the current LBR exogenous cost is over **4 times** the base threshold level. Therefore, the magnitude of Bay State's exogenous cost associated with LBR is significant. See, D.T.E. 03-36 at 14 (where the magnitude of the cost change exceeds the established monetary threshold, the second standard is met). The Department has granted Bay State rates sufficient to provide the opportunity to earn a return deemed to be sufficient to compensate for the investment Bay State has made to serve the public and to fund its on-going operations. Failure to recognize this cost will deny Bay State the opportunity to earn its allowed return.

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DTE 1-23: Please provide the information shown in the Table below. Indicate the period covered by the data.

RESPONSE: See Attachment DTE 1-23 for the completed table of the information requested.

Attachment DTE 1-23

Part I:	4-Year Rolling Period Method (RPM)		
Customer Class	Lost Base Revenues (LBR)	Associated Carrying Costs	Total LBR
Residential – Heating	608,438	55,527	663,965
Residential – Non-Heating	(5,923)	(573)	(6,496)
Multi-Family	188,213	22,611	210,824
Total (Residential & Multi-Family)	790,728	77,565	868,293
Commercial & Industrial	620,835	50,466	671,301
Total	1,411,563	128,031	1,539,594

Part II:	Method Prior to DTE 97-112 (1999) (All DSM Measures Installed Included)		
Customer Class	Lost Base Revenues (LBR)	Associated Carrying Costs	Total LBR
Residential – Heating	1,507,934	115,137	1,623,071
Residential – Non-Heating	60,699	4,225	64,924
Multi-Family	604,916	50,945	655,861
Total (Residential & Multi-Family)	2,173,550	170,307	2,343,857
Commercial & Industrial	1,407,475	103,953	1,511,428
Total	3,581,025	274,260	3,855,285

Part III:	Exogenous Costs Calculation		
Customer Class	Lost Base Revenues (LBR)	Associated Carrying Costs	Total LBR
Residential – Heating	899,496	59,610	959,106
Residential – Non-Heating	66,622	4,798	71,420
Multi-Family	416,703	28,334	445,037
Total (Residential & Multi-Family)	1,382,822	92,742	1,475,563
Commercial & Industrial	786,640	53,487	840,128
Total	2,169,462	146,229	2,315,691

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Date: August 20, 2004

Witness Responsible: Joseph A. Ferro

DTE 1-24: Please provide the information shown in the Table below. Indicate the period covered by the data.

RESPONSE: See Attachment DTE 1-24 for the completed table of the information requested.

Attachment DTE 1-24

Part I:	4-Year Rolling Period Method (RPM)		
Customer Class	Gross Therm Savings	Net Therm Savings	Net Therm Savings As a % of Gross Therm Savings (%)
Residential – Heating	3,926,937	2,616,431	67%
Residential – Non-Heating	42,229	23,789	56%
Multi-Family	1,180,009	1,193,462	101%
Total (Residential & Multi-Family)	5,149,175	3,833,683	74%
Commercial & Industrial	4,286,694	3,616,684	84%
Total	9,435,869	7,450,366	79%

Part II:	Method Prior to DTE 97-112 (1999) (All DSM Measures Installed Included)		
Customer Class	Gross Therm Savings	Net Therm Savings	Net Therm Savings As a % of Gross Therm Savings (%)
Residential – Heating	11,604,254	6,679,171	58%
Residential – Non-Heating	352,226	159,177	45%
Multi-Family	3,172,442	3,602,625	114%
Total (Residential & Multi-Family)	15,128,922	10,440,972	69%
Commercial & Industrial	9,518,964	8,031,150	84%
Total	24,647,886	18,472,122	75%

Part III:	Exogenous Costs Calculation (Therm Savings)		
Customer Class	Gross Therm Savings	Net Therm Savings	Net Therm Savings As a % of Gross Therm Savings (%)
Residential – Heating	7,677,317	4,062,740	53%
Residential – Non-Heating	309,997	135,387	44%
Multi-Family	1,992,433	2,409,163	121%
Total (Residential & Multi-Family)	9,979,747	6,607,290	66%
Commercial & Industrial	5,232,270	4,414,466	84%
Total	15,212,017	11,021,756	72%